Rupee & FII Movement - Weekly

Jan 9– Jan 13, 2012

Fullerton Securities

Flows into the debt markets provide strong boost for the rupee

The rupee experienced a magnificent run over the course of last week, ending higher against the dollar by over two percent. The strong rally was brought about by a significant inflow into the Indian government debt market as well as an uptick in domestic equity markets.

The week saw a burst of inflows into government debt as foreign investors attempted to use up their limits to buy the same, before the limit expires on the deadline of January 14. The demand was further boosted by expectation by several traders that a rate cut by the central bank in its next monetary policy meet is imminent.

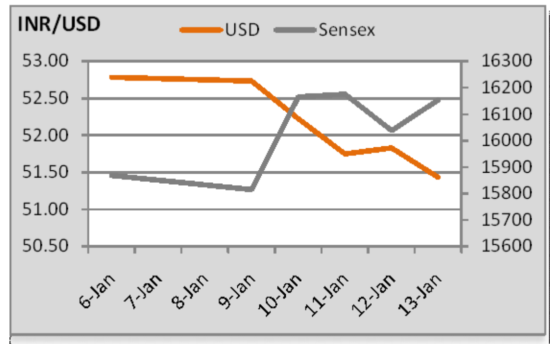
Mid-week the government, finally, formally notified its decision to allow 100% foreign direct investment in single-brand retail. The news was welcomed by the domestic markets, as was seen by a 350 point jump in the Sensex on Tuesday. Additionally positive news came in the form of an upgrade for India's short term foreign currency bank deposits from speculative to investment grade by Moody's after the finance minister sought clarity from the global rating agency. The short term country ceiling on foreign currency bank deposit now stands at Prime (P-3) from Not Prime (NP), suggesting acceptable ability to repay short-term obligations. The upgrade is likely to help attract further inflow into the markets as foreign investors are provided with some comfort during a time of high inflation and low growth.

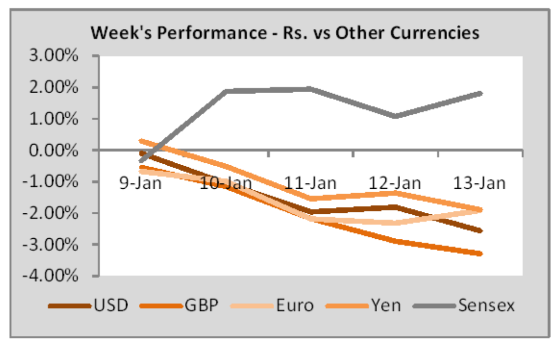
However, upside for the rupee was capped due to negative sentiments globally. Global investors continue to feel the angst of the euro zone crisis. Germany showed the first signs of feeling the pain from the euro zone's debt crisis as the economy shrank in the last three months of 2011. Additionally, oil exporters continued to buy dollars, limiting the rupees rise. However, the rupee ended on a spectacular note due to a rise in global risk appetite, following successful bond auctions in the eurozone.

Last week, the local currency made a gain of 2.56% against the dollar closing at 51.4310. The strong rally in the second week of the new year has helped the rupee to trade higher than its close in 2011. So far this year, the unit has made gains of 3.44%. In the week the rupee gained 3.29%, 1.91% and 1.89% against the sterling pound, euro and yen respectively. Meanwhile the domestic equity markets, as represented by the Sensex, made gains of 1.81% or 287 points during the course of the week to close at 16,155, well above the 16,000 level. The 30-share index has gained 4.5% so far this year.

RBI Reference Rates

Date	USD	GBP	EURO	YEN
6-Jan-12	52.7838	81.7885	67.4618	68.3400
9-Jan-12	52.7325	81.3399	67.0098	68.5400
10-Jan-12	52.2255	80.8399	66.7978	67.9900
11-Jan-12	51.7495	80.0099	65.9910	67.2900
12-Jan-12	51.8290	79.4228	65.9013	67.4100
13-Jan-12	51.4310	79.1009	66.1743	67.0500
Change (%)	(2.56)	(3.29)	(1.91)	(1.89)





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Going forward, the rupee is likely to be affected by the downgrade of France to AA+ which aggravates the euro zone crisis and is likely to increase demand for the safe-haven dollar. Additionally, the start of the result season will decide the fate of Indian equities and whether foreign investors will keep their faith in the domestic markets ability to perform. Finally, the RBI's monetary policy, to be held on 24 January, will be a key driver for the local markets. While several traders expect a rate cut or a reduction in the CRR, it is more likely that the RBI will take a pause, rather than a reversal in its monetary tightening stance. The rupee is expected to trade in the range of 51.24 and 52.3 in the short term.

FII Investments

While inflows into the debt market were strong, those into the equity markets started on a lackluster note. Foreign investors did, however, start pouring funds into equities following news of an approval for 100% FDI in single-brand retail. The week saw total inflows of Rs. 1466cr ($282mn) taking the total for the January to Rs. 2472 ($472mn). FIIs, however, continue to maintain a cautious view in the short term with state elections around the corner followed by the Union Budget.

FII Cash Investment in Equity (Rs. Cr.)

Date	Gross Purchase	Gross Sale	Net Flow	(in $mn)	Sensex
9-Jan-12	1851.0	1,825.9	25.1	4.8	15814.72
10-Jan-12	1,789.1	1,776.7	12.4	2.4	16,165.1
11-Jan-12	2,783.1	2,378.0	405.1	77.6	16175.86
12-Jan-12	2,629.6	2,132.1	497.5	96.1	16,037.5
13-Jan-12	2,526.8	2,001.3	525.5	101.4	16154.62
Weeks Total	11,579.6	10,114.0	1,465.6	282.2	
Jan Total	18,476.1	16,004.3	2,471.8	472.2	
Dec Total	44,075.8	43,977.8	98.0	31.5	
Nov Total	39,612.4	43,810.3	(4,197.9)	(787.1)	
2011 Total	611,055.3	613,769.5	(2,714.2)	(357.8)	
2010 Total	766,281.4	633,015.3	133,266.1	29,362	
2009 Total	624,237.8	540,813.7	83,424.1	17,458